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SUBJ: TURKISH-LIBYAN ECONOMIC COOPERATION AGREEMENTS

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SUMMARY: TURKISH-LIBYAN AGREEMENTS ON ECONOMIC COOPERATION,
RECENTLY PUBLISHED IN THE OFFICIAL GAZETTE, WENT INTO EFFECT
ON JUNE 2. THEY INCLUDE A COMMERCIAL AND FINANCIAL COOPERATION
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AGREEMENT, A BANKING ARRANGEMENT BETWEEN THE TURKISH CENTRAL
BANK AND THE LIBYAN ARAB FOREIGN BANK, AND THE PROTOCOL OF
THE THIRD MEETING OF THE TURKEY-LIBYA JOINT ECONOMIC COMMITTEE,
APRIL 29-MAY 3. UNDER THE AGREEMENTS LIBYA OFFERS TURKEY
FOUR KINDS OF CREDIT: (1) ROLLOVER OF CERTAIN OVERDUE OIL
DEBTS, (2) CREDIT FOR 20 PER CENT OF NEW TURKISH IMPORTS OF
LIBYAN OIL, (3) PROGRAM CREDIT OF \$100 MILLION, AND (4)

POSSIBLE PROJECT CREDITS OF UNSPECIFIED AMOUNT. IN RETURN, TURKEY PROMISES TO REPAY MOST OF THESE CREDITS OUT OF THE EARNINGS FROM ITS EXPORTS TO LIBYA OF CERTAIN AGRICULTURAL GOODS IN SPECIFIED QUANTITIES OVER THE NEXT FIVE YEARS. END SUMMARY

1. A COMMERCIAL AND FINANCIAL COOPERATION AGREEMENT BETWEEN TURKEY AND LIBYA, A BANKING ARRANGEMENT BETWEEN THE TURKISH CENTRAL BANK AND THE LIBYAN ARAB FOREIGN BANK, AND THE PROTOCOL OF THE THIRD MEETING OF THE TURKEY-LIBYA JOINT ECONOMIC COMMITTEE BECAME EFFECTIVE JUNE 2, AFTER PUBLICATION IN THE TURKISH OFFICIAL GAZETTE.

2. THE MOST IMPORTANT OF THE AGREEMENTS IS THE COMMERCIAL AND FINANCIAL COOPERATION AGREEMENT WHICH PLANS THREE KINDS OF LIBYAN FINANCIAL HELP FOR TURKEY: (1) ROLLOVER OF CERTAIN OVERDUE TURKISH DEBTS FOR LIBYAN PETROLEUM, (2) A CREDIT EQUAL TO 20 PER CENT OF THE VALUE OF LIBYAN OIL PURCHASED BY TURKEY AFTER JUNE 2, 1978, AND (3) AN UNRESTRICTED PROGRAM CREDIT OF \$100 MILLION TO THE TURKISH CENTRAL BANK WHICH LIBYAN ARAB FOREIGN BANK UNDERTAKES TO OBTAIN AND GUARANTEE.

3. THE COMMERCIAL AND FINANCIAL COOPERATION AGREEMENT PROVIDES THAT TURKEY WILL REPAY THESE CREDITS PLUS INTEREST OUT OF THE EARNINGS FROM ITS EXPORTS TO LIBYA OF CERTAIN LIMITED OFFICIAL USE

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AGRICULTURAL GOODS IN SPECIFIED QUANTITIES OVER THE FIVE YEARS ENDING APRIL 30, 1983. TURKEY AGREES TO EXPORT THE FOLLOWING QUANTITIES (IN THOUSANDS OF METRIC TONS) OF GOODS TO LIBYA DURING THE YEARS INDICATED:

GOODS	1978	EACH FOLLOWING YEAR
SOFT WHEAT	230	200
HARD WHEAT	90	120
BARLEY	0	100
FLOUR	50	100
FRUIT	10	50
SHEEP AND MUTTON	5	20
TOMATO SAUCE	10	15
CATTLE AND BEEF	0	12
OLIVE OIL	5	10

THE INTEREST RATE ON BOTH OIL CREDITS WILL BE THREE-ARTS OF ONE PER CENT OVER LIBOR, COMPUTED QUARTERLY. THE TERMS FOR THE PROGRAM CREDIT WILL BE THOSE PREVAILING IN INTERNATIONAL MONEY MARKETS WHEN THE FINAL CREDIT AGREEMENT IS SIGNED.

4. THIS AGREEMENT ALSO PROVIDES THAT THE TERMS OF SALE

(INCLUDING PRICE) FOR THE EXPORT GOODS LISTED ABOVE WILL BE DETERMINED BY AGREEMENTS BETWEEN THE LIBYAN FOOD PRODUCTS ASSOCIATION AND OTHER LIBYAN FIRMS ON THE ONE HAND AND TURKISH ASSOCIATIONS AND COMPANIES ON THE OTHER.

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5. WHEN THE AGREEMENT EXPIRES ON APRIL 30, 1983, ANY BALANCE DUE EITHER COUNTRY UNDER THE AGREEMENT WILL BE SETTLED AS FOLLOWS. LIBYA WILL PAY CASH TO TURKEY IF THE VALUE OF TURKEY'S EXPORTS TO LIBYA EXCEEDS THE AMOUNT OF CREDIT PLUS INTEREST. ON THE OTHER HAND, TURKEY WILL REPAY LIBYA IN CASH OR KIND FOR ANY OUTSTANDING CREDITS OR INTEREST THEREON.

6. DURING THE FIVE-YEAR TERM OF THE COMMERCIAL AND FINANCIAL COOPERATION AGREEMENT, ALL PAYMENTS UNDER IT WILL BE MADE AS PRESCRIBED IN THE BANKING ARRANGEMENT BETWEEN THE TURKISH

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CENTRAL BANK AND THE LIBYAN ARAB FOREIGN BANK. THIS SECTION ARRANGES FOR THE LIBYAN BANK TO OPEN TWO ACCOUNTS IN THE NAME OF THE TURKISH BANK. ACCOUNT NO. 1 WILL INCLUDE ALL THREE KINDS OF CREDIT PROVIDED FOR UNDER THE COMMERCIAL AND FINANCIAL AGREEMENT. ACCOUNT NO. 2 WILL INCLUDE ALL PAYMENTS FOR TURKISH EXPORTS TO LIBYA PLUS EARNED INTEREST. BOTH OF THESE ACCOUNTS WILL BE KEPT IN U.S. DOLLARS. TRANSFERS FROM THE SECOND TO THE FIRST ACCOUNT WILL BE MADE QUARTERLY IN ORDER TO PAY OFF LIBYAN CREDITS PLUS INTEREST.

7. THE BANKING ARRANGEMENT PROVIDES FOR LIBYAN COMMERCIAL BANKS TO MAKE LIBYAN IMPORTERS' TRANSFERS TO ACCOUNT NO. 2, AFTER WHICH TURKISH COMMERCIAL BANKS WILL PAY TURKISH EXPORTERS.

8. THE MOST IMPORTANT PART OF THE PROTOCOL SIGNED AT THE THIRD PERIODIC MEETING OF THE TURKEY-LIBYA MIXED ECONOMIC COMMISSION, APRIL 29 TO MAY 3, 1978, IS A SUMMARY OF ACTIVITY OF WORKING GROUPS ON EACH OF FOUR KINDS OF COOPERATION: INDUSTRIAL, AGRICULTURAL, TOURISTIC, AND TECHNICAL. IN THE INDUSTRIAL WORKING GROUP, TURKEY REQUESTED THAT LIBYA EITHER GRANT CREDITS TO OR INVEST IN TWENTY INDUSTRIAL PROJECTS, MOSTLY IN TURKEY, WHICH TURKEY HAD PROPOSED DURING 1977. LIBYA PROMISED TO DECIDE UPON EIGHT PROJECTS WITHIN TWO MONTHS AND THE OTHER TWELVE PROJECTS BY THE TIME OF THE NEXT JOINT COMMITTEE MEETING, SCHEDULED FOR OCTOBER, 1978. (EMBASSY NOTES THAT MOST OF THESE PROJECTS WERE ORIGINALLY PROPOSED AS PART OF THE "HEAVY INDUSTRY DRIVE" BY EX-DEPUTY PRIME MINISTER NECMETTIN ERBAKAN; APPARENTLY PRESENT GOVERNMENT WOULD ALSO BE GLAD TO HAVE THESE IMPLEMENTED IF THE LIBYANS WERE WILL TO PAY FOR THEM.)

THE AGRICULTURAL WORKING GROUP PLANNED THE ESTABLISHMENT OF A JOINT COMPANY WITH A TWENTY-FIVE YEAR LIFE SPAN TO GROW LIMITED OFFICIAL USE

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CEREALS AND SUGAR BEETS IN TURKEY AND VEGETABLES IN LIBYA. THE OTHER TWO WORKING GROUPS PLANNED A FUTURE MEETING OF TOURISM EXPERTS AND TURKISH PROVISION OF TECHNICAL PERSONNEL AND EDUCATION TO LIBYA.

9. FIVE OTHER KINDS OF ECONOMIC COOPERATION, SOME OF WHICH MAY NOT MATERIALIZE FOR YEARS, WERE PLANNED IN THE PROTOCOL:
(1) FACILITATION OF TURKISH WORKERS' REMITTANCES TO TURKEY,
AND ASSURANCE OF SOCIAL SECURITY FOR WORKERS WHILE IN LIBYA,

(2) ESTABLISHMENT OF JOINT COMPANIES FOR CONTRACTING AND ENGINEERING, (3) ESTABLISHMENT OF JOINT COMPANIES IN LIBYA FOR SHIP BUILDING, SHIP OVERHAULING, AND MARITIME TRANSPORT, (4) ESTABLISHMENT OF SCHEDULED AIR SERVICE BETWEEN ISTANBUL AND TRIPOLI BY BOTH TURKISH AND LIBYAN AIRWAYS (INAUGURATED MAY 1 BY TURKISH AIRWAYS), AND (5) ESTABLISHMENT OF A PERMANENT SECRETARIAT TO MANAGE BILATERAL TECHNICAL, COMMERCIAL AND FINANCIAL AFFAIRS THROUGH MONTHLY MEETINGS.

10. ALL THREE AGREEMENTS WERE SIGNED MAY 2, 1978, IN TRIPOLI BY TURKEY'S MINISTER OF STATE HILKMET CETIN AND LIBYA'S SECRETARY OF HOUSING MOHAMMED AL-MANGUSH. APPROVED BY THE TURKISH COUNCIL OF MINISTERS ON MAY 9, IT WAS PUBLISHED IN BOTH TURKISH AND ARABIC LANGUAGES IN TURKISH OFFICIAL GAZETTE OF MAY 13 (COPY BEING POUCHED TO EUR/SE). THE AGREEMENTS WENT INTO EFFECT ON JUNE 5, FOLLOWING THE EXCHANGE OF APPROVAL DOCUMENTS BY LIBYAN AMBASSADOR TO ANKARA ABUSHWERB AND MFA ASSISTANT SECRETARY GENERAL FOR ECONOMIC AFFAIRS, NAZIF CUHRUK.

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11. COMMENT: THERE APPEARS TO BE SOME CONFUSION AMONG EMBASSY'S SOURCES AS TO WHETHER OR NOT THESE AGREEMENTS REQUIRE RATIFICATION BY GRAND NATIONAL ASSEMBLY. HOWEVER, THE ONLY AGREEMENT THAT SPECIFICALLY STATES SUCH A REQUIREMENT IS THE JOINT ECONOMIC COMMITTEE PROTOCOL. DESPITE GOT INSISTANCE THAT ALL THREE AGREEMENTS WENT INTO EFFECT ON JUNE 2, EMBASSY SUSPECTS THAT IT MAY BE SOME TIME BEFORE TURKEY COMPLETES RATIFICATION OF THE PROTOCOL AND LIBYA PROVIDES PROJECT CREDITS ON THE BASIS OF THE PROTOCOL.

12. THE DIRECTOR OF PROJECT CREDITS SECTION IN FINANCE
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MINISTRY, ORHAN SAGCI, WHO REPRESENTED HIS MINISTRY IN THE NEGOTIATIONS, COMMENTED ON JUNE 20 THAT THE TURKISH-LIBYAN BANKING ARRANGEMENT WAS EXPECTED TO BECOME OPERATIVE BY JUNE 23, WHEN LIBYA HAS PROMISED TO PROVIDE THE \$100 MILLION PROGRAM CREDIT. HE EXPECTS THIS TO BE A LUMP SUM "TO BE USED AS SEEN FIT BY HIGHER AUTHORITIES." WHEN ASKED IF THIS WOULD NOT BE USED TO PAY FOR FURTHER IMPORTS OF LIBYAN CRUDE HE CONCEDED THAT THIS WAS POSSIBLE BUT THAT LIBYA WAS NOT REQUIRING THIS OF TURKEY.

13. SAGCI ESTIMATES THAT THE FOUR KINDS OF LIBYAN CREDITS UNDER THESE AGREEMENTS COULD REACH \$572 MILLION OVER ITS FIVE-YEAR PERIOD. \$47 MILLION OF THIS IS A CONSOLIDATION OF TURKISH OBLIGATIONS FOR IMPORTS OF LIBYAN OIL PRIOR TO THE AGREEMENTS. \$300 MILLION IS THE AMOUNT OF CREDIT TURKEY WOULD RECEIVE FROM LIBYA OVER THE NEXT FIVE YEARS IF TURKEY CONTINUES TO IMPORT LIBYAN OIL VALUED AT \$300 MILLION PER YEAR (AS IN 1977) AND LIBYA IMPLEMENTS ITS COMMITMENT IN THE TREATY TO FINANCE 20 PER CENT OF THESE OIL IMPORTS. \$100 MILLION OF SAGCI'S ESTIMATE IS THE PROGRAM CREDIT WHICH HE EXPECTS TO RECEIVE BY JUNE 23. THE REMAINING \$125 MILLION WOULD BE A LOAN TO FINANCE THE DOWN-PAYMENTS FOR THIRTEEN OF THE ECONOMIC COOPERATION PROJECTS IN TURKEY THAT WERE CONSIDERED DURING THE NEGOTIATIONS. SAGCI HASTENED TO ADD THAT THE \$125 MILLION IN PROJECT CREDITS WAS STILL UNCERTAIN BECAUSE LIBYA HAD NOT COMMITTED ITSELF TO PROVIDE ANY SUCH CREDITS YET, BUT HAD PROMISED TO REACH A DECISION ON PROJECT CREDITS BY JUNE 23.

14. ALTHOUGH THESE AGREEMENTS MAY HELP ASSURE CONTINUATION OF TURKEY'S OIL SUPPLY FROM LIBYA ON FAVORABLE FINANCIAL TERMS, EMBASSY NOTES THAT IT MAY LEAD TO COMMERCIAL, FINANCIAL, AND POLITICAL PROBLEMS FOR TURKEY. FIRST, TURKEY

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MAY ENCOUNTER UNANTICIPATED DIFFICULTIES REPAYING LIBYA THROUGH EXPORTS OVER THE NEXT FIVE YEARS FOR CREDITS OF SUCH MAGNITUDE, EVEN IF LIBYA WERE TO ALLOW FIVE YEARS' GRACE PERIOD UPON ANY PROJECT CREDITS THAT IT MAY OFFER. TURKEY'S EXPORTS TO LIBYA FROM 1973 TO 1977 WERE VALUED AT ONLY ABOUT \$68 MILLION ALTOGETHER AND TURKEY HAS REPORTEDLY SHIPPED ONLY 30,000 TONS OF WHEAT TO LIBYA SO FAR THIS YEAR. LIBYA COULD NOT POSSIBLY CONSUME ALL OF THE EXPORTS PLANNED AND MOREOVER TURKISH PORTS ARE ALREADY BADLY CONGESTED. ANOTHER PROBLEM IS THAT THE AGREEMENTS ESTABLISH A THINLY VEILED BILATERAL CLEARING ARRANGEMENT WITH LIBYA, DESPITE THE COMMITMENT WHICH TURKEY RECENTLY MADE TO THE IMF NOT TO ESTABLISH ANY NEW BILATERAL PAYMENTS AGREEMENTS WITH FUND MEMBERS (SEE LAST SENTENCE OF PARAGRAPH 17 IN TURKEY'S LETTER OF INTENT). A THIRD PROBLEM RELATES TO POSSIBLE POLITICAL IMPLICATIONS. TURKEY MAY HAVE TO PAY SOME POLITICAL PRICE TO ASSURE THAT LIBYA DOES NOT TURN OFF ITS FLOW OF CRUDE TO TURKEY. THIS MAY ENTAIL SUPPORTING LIBYA'S POSITION IN THE REJECTIONIST FRONT CONCERNING THE MIDDLE EAST PEACE NEGOTIATIONS. THIS MAY BE ONE OF THE TOPICS THAT WILL BE RAISED LATER THIS YEAR WHEN PRIME MINISTER BULENT ECEVIT REPORTEDLY WILL VISIT LIBYA IN RECIPROCATION FOR THE LIBYAN PRIME MINISTER'S VISIT TO TURKEY LAST JANUARY. SPIERS

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